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TAGS: EAIR ECON NI
SUBJECT: GON SEEKS ALTERNATIVES TO SAA FOR NIGERIA EAGLE AIRLINES

¶1. (U) Summary: The GON is considering new expressions of interest from European carriers (Virgin Atlantic, Air France/KLM and Lufthansa) to become the technical partner to the proposed Nigerian Eagle Airlines (NEA). The GON's introduction of new conditions for a reciprocal agreement mandating that Nigerians be allowed to buy 10 percent equity in South African Airways (SAA) has stalled the talks with SAA, previously designated tentative technical partner to the NEA. Executives involved in the talks say Virgin Atlantic is likely to be chosen if SAA remains uncompromising. End summary.

¶2. (U) The anticipated take-off of NEA, previously scheduled for second quarter of 2004, is now stalled because of a breakdown in talks between the GON and SAA. This was brought about by a recent GON demand that a reciprocal agreement permit Nigerians to buy 10 percent equity in SAA if it should ever be privatised. This precondition to the signing of a memorandum of understanding (MOU) reflects earlier criticism, particularly by civil society, that the GON had moved too quickly to select SAA as the tentative technical partner of the new flag carrier.

¶3. (U) Aviation Minister Isa Yuguda announced the GON's decision to look for alternatives to SAA as technical partner several days ago. Alternative airlines being considered include European carriers Virgin Atlantic, Air France/KLM and Lufthansa, which he said had submitted bids for the joint venture. According to Bismarck Rewane, the Managing Director of Financial Derivatives Company (FDC) Limited, the project's financial advisors, Virgin Atlantic seems to be the GON's preferred bidder.

¶4. (U) Though SAA officials have reportedly denied a glitch to the signing of an MOU and have asserted that negotiations are progressing, Yuguda has merely stated that SAA can resubmit a bid to be NEA's technical partner. He added that SAA's willingness or refusal to meet the GON's demand for a reciprocal agreement remains a major determinant of SAA's future success or failure to obtain the contract if any.

¶5. (U) Comment: As the selection process suggests, the choice of a technical partner may be more political than economic, given the GON's historical ties to Europe. If selected, Virgin Atlantic would run two daily flights on the lucrative Lagos-London route, along with other regional and intercontinental routes, reserved for the flag carrier. While Rewane believes that the bid is still open, he fears that the difficulty of his firm's getting together a group of core investors will be compounded by the probability that the GON will yet introduce new conditions during its negotiations with other prospective investors, as it did with SAA. End comment.

HINSON-JONES